

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Bouse Elementary School District No. 26

As of March 6, 2008



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Gregg Rickert, Manager and Contact Person
grickert@azauditor.gov

Sara Thomas
Lisa Ashton
Elizabeth Vore

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

June 25, 2008

Governing Board
Bouse Elementary School District No. 26
P.O. Box S
Bouse, AZ 85325-0395

Members of the Board:

In our July 2007 procedural review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) as of April 4, 2007. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of March 6, 2008. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



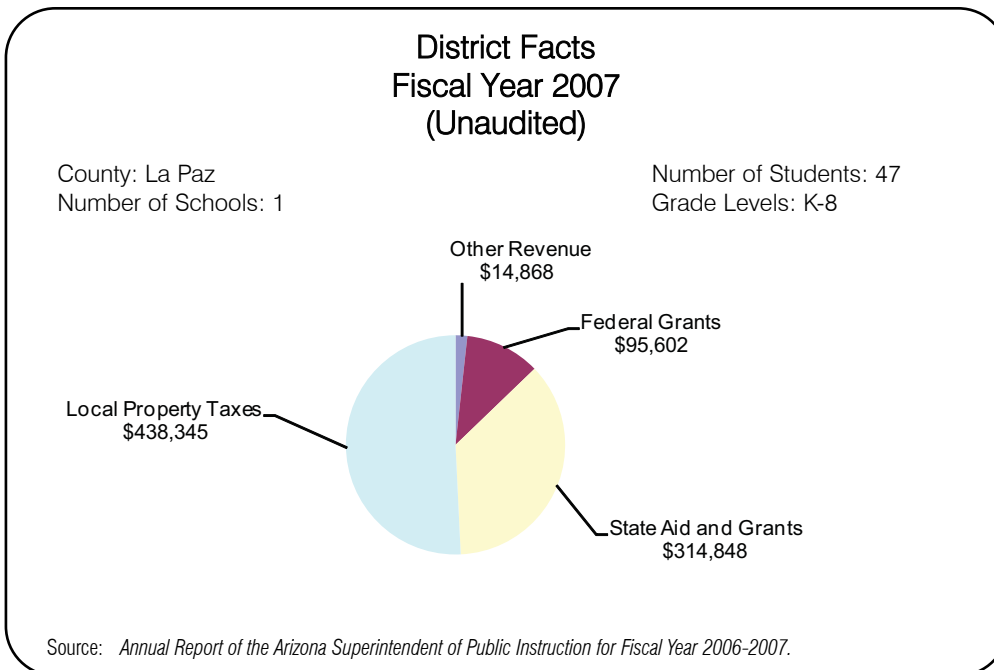
Introduction	1
Recommendation 1: The District should ensure the accuracy of its student attendance records	2
Recommendation 2: The District's controls over competitive purchasing and expenditures should be strengthened	3
Recommendation 3: The District should maintain accurate capital assets and stewardship lists	4
Recommendation 4: The District should improve controls over student activities monies	5
Recommendation 5: The District's controls over cash and accounting records should be improved	7

INTRODUCTION

Bouse Elementary School District No. 26 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$863,000 it received in fiscal year 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

The State of Arizona provides funding to school districts based on student membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the districts receive the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, the District did not take attendance four times a day as required when attendance is based on quarter days. In addition, the District incorrectly calculated partial-day attendance and did not always maintain sign-in and sign-out sheets to support partial-day absences. Further, the District did not indicate when student entries and withdrawals were recorded in the District's attendance system. Finally, membership and absences reported to ADE did not always agree to the District's attendance records.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should:

- Take attendance four times a day since the District's attendance is based on quarter days, and record and report membership and absences in accordance with ADE's *Instructions for Required Reports*.
- Record attendance for students enrolled in kindergarten through eighth grades when attendance is based on quarter-days as follows:
 - For kindergarten students, when the instructional time scheduled for the year is at least 692 hours, students attending less than one-half of the day should be counted as absent. Half-day absences are not reported for kindergarten students.
 - For elementary and junior high students, students attending class for less than three-quarters of a day should be counted absent for each quarter of the day they miss. Students in attendance for at least three-quarters of the day should be counted in attendance for a full day.
- Retain accurate student sign-in and sign-out sheets to support partial-day attendance.
- Retain documentation to support the dates that student entries and withdrawals are entered in the District's attendance system.
- Ensure that membership and absence amounts reported to ADE agree with its attendance records, and investigate and correct all differences.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District's controls over competitive purchasing and expenditures should be strengthened

USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. It is also essential that districts follow procedures designed to help ensure that purchases are approved before committing district monies and that expenditures are adequately supported. However, the District did not have adequate controls over purchasing and expenditures. Specifically, the District did not perform due-diligence procedures for purchases made through a purchasing cooperative and did not always obtain oral price quotations for purchases that required them. In addition, the District did not ensure that sufficient cash was available in cash-controlled funds before approving expenditures. Also, the District issued blanket purchase orders that did not cover a definite time period and specify a dollar limit. Further, the District did not always ensure credit card purchases were supported by receipts prior to making credit card payments. Finally, the District purchased bottled water for employees, which may represent a gift of public monies in violation of Arizona Constitution, Article IX, §7.

The District may not have received the best value for the public monies it spent.

Recommendations

To help ensure that all district purchases comply with the USFR guidelines and strengthen controls over expenditures, the District should:

- Review documentation from each purchasing cooperative for at least a sample of the contracts that the District wishes to use to ensure that the contracts were bid following the School District Procurement Rules. The District should document the process used to perform the due-diligence procedures and the results.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Verify that sufficient cash is available in cash-controlled funds before approving expenditures.
- Ensure that all blanket purchase orders include specific time periods and dollar limits.

USFR guidelines require oral price quotations for purchases between \$5,000 and \$15,000.

- Retain supporting documentation for all credit card purchases and require district employees to promptly submit detailed credit card receipts.
- Obtain written Governing Board determinations for expenditures that are not clearly for district purposes showing that the purchase serves a public purpose and that the public value expected to be received is not far exceeded by the amount being paid. Obtain these determinations before the items are ordered and retain them with supporting documentation.

The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should have accurate lists of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not accomplish this objective. The District did not have written instructions for performing its physical inventory of equipment and had not performed a complete physical inventory in the last 3 years. Also, the District's capital assets list included rented assets that should not have been included on the list. In addition, costs recorded on the capital assets list did not always agree to supporting documentation, including a capital lease purchase, and some assets were recorded on the wrong list. Finally, tag numbers for stewardship items were not always accurate.

The District had not performed a complete physical inventory of its capital assets in the last 3 years.

Recommendations

To improve control over its assets and help ensure that its capital assets and stewardship lists are accurate and complete, the District should:

- Develop detailed written instructions for performing a physical inventory, and distribute them to and review them with all participating employees.
- Perform a physical inventory of all equipment at least every 3 years using employees who are not responsible for asset custody.
- Prepare and maintain a detailed capital assets list that includes all equipment and vehicles with unit costs of \$5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$5,000 or more. The District should refer to USFR page VI-E-5 to determine if a leased asset should be recorded on its capital assets list.

Instructions for performing a physical inventory are listed on USFR pages VI-E-8 and 9.

- Record assets at actual cost, including ancillary charges necessary to put the asset in its intended location and condition for use, such as sales tax, freight and delivery charges, and installation and assembly charges. Assets acquired under the terms of capital lease agreements should be valued at the lesser of the fair market value at the lease's inception or the present value of the net minimum lease payments, usually the principal amount, at the beginning of the lease term.
- Include the description, identification or tag number, location, and the month and year of acquisition for each item on the stewardship list. The list should be updated annually for items acquired, disposed of, or moved.

The District should improve controls over student activities monies

The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not establish proper oversight. For example, the District did not separate cash-handling and recordkeeping responsibilities for the student activities bank account. In addition, the District wrote two checks from the Student Activities Fund bank account payable to cash in order to establish change funds for student activities events. Also, the District did not prepare reports that reconciled sales to cash collected. The activity sponsor routinely provided sale items to students at no cost or at a reduced cost and did not keep track of those items; therefore, sales could not be reconciled to cash collections. In addition, the District did not retain student activities bank deposit slips.

Poor cash controls left student monies susceptible to loss, theft, or misuse.

Further, student activities checks were not always signed by the student activities treasurer and one other person designated by the Governing Board, and the District did not always record checks in the student activities records in a timely manner. Additionally, monthly bank reconciliations were not prepared and reviewed by employees not involved with handling cash, issuing checks, and recordkeeping. Finally, the District did not always prepare a monthly statement of cash receipts, disbursements, and cash balances and submit it to the Governing Board.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

Recommendations

The following procedures can help the District strengthen controls over student activities monies:

- Separate cash-handling and recordkeeping responsibilities among employees. Small districts unable to adequately separate responsibilities because of insufficient staff size should implement additional supervisory review at appropriate points in the process to help ensure adequate internal control is maintained.
- Ensure checks are not written payable to cash or bearer. Change funds should be established by a check made payable to the change fund custodian.
- Prepare cash collection or activity reports to document and reconcile cash collections and tickets or items sold for student activities events. For those activities where documenting sales is not practical, such as car washes or bake sales, district employees should still prepare cash collection reports to document cash collected.
- Retain copies of bank deposit slips and reconcile them to validated deposit slips.
- Require disbursements from the student activities bank account to be made by check. Each check must be signed by two individuals, one of which must be the student activities treasurer, and another individual appointed by the Governing Board. Checks issued should be recorded in the student activities records immediately in order to accurately reflect the amount of available cash.
- Require monthly written bank reconciliations to be prepared by an employee not responsible for handling cash, issuing checks, or recordkeeping. In small districts where the same employee performs two or more of these functions, reconciliations should be reviewed and approved by district management.
- Ensure the student activities treasurer prepares a monthly report of student activities cash receipts, disbursements, transfers, and cash balances of the Student Activities Fund and submits the report to the Governing Board in a timely manner.

The District's controls over cash and accounting records should be improved

The District receives monies from various sources, including food service sales, and deposits the related receipts with the County Treasurer. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash and ensure that cash receipts are promptly and accurately recorded and deposited. However, the District did not have strong controls over its cash receipts. Specifically, the District did not adequately separate cash-handling and recordkeeping responsibilities for food service cash receipts. In addition, the District did not update and review prepaid meal accounts until after meals were served, and as a result, allowed adults to have meals even though their prepaid meal balance was exhausted.

Further, the District's Governing Board depends on accurate information to fulfill its oversight responsibility and to report accurate information to the public and agencies from which it receives funding. Therefore, management should ensure that its accounting records are accurate and complete. However, this was not always accomplished since journal entries were not always approved prior to posting them to the accounting records and were not supported by documentation. In addition, the District did not always classify expenditures in accordance with the USFR Chart of Accounts.

Recommendations

To help improve controls over cash receipts and accounting records, the District should:

- Separate cash-handling and recordkeeping responsibilities so that the same employee does not handle food service cash receipts and record the related transactions. If one employee must perform multiple functions, a district manager or supervisor should review and approve summary reports and reconciliations.
- Develop procedures to help ensure that adults pay for meals when received or in advance.
- Require a supervisor to review and approve all journal entries before they are posted to the accounting records. Retain documentation for all journal entries, which should include explanations, attachments, or references to support the entry, and the signatures or initials of the employee making the entry and the supervisor approving it.
- Record all expenditures in accordance with the USFR §III, Chart of Accounts.